

ANNUAL FINANCIAL REPORT

of the

**CITY OF
JACINTO CITY, TEXAS**

**For the Year Ended
September 30, 2014**

CITY OF JACINTO CITY, TEXAS

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September 30, 2014

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of Jacinto City, Texas:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Jacinto City, Texas (the "City") as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Partners

Robert Belt, CPA
Stephanie E. Harris, CPA
Nathan Krupke, CPA

Houston

3210 Bingle Rd., Ste. 300
Houston, TX 77055
713.263.1123

Bellville

P.O. Box 826
Bellville, TX 77418
979.865.3169

Austin

100 Congress Ave., Ste. 2000
Austin, TX 78701
512.381.0222

All Offices

www.texasauditors.com
info@txauditors.com
713.263.1550 fax



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Audit Quality Center

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City as of September 30, 2014, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, and schedules of funding progress, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The individual fund schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The individual fund schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
March 20, 2015

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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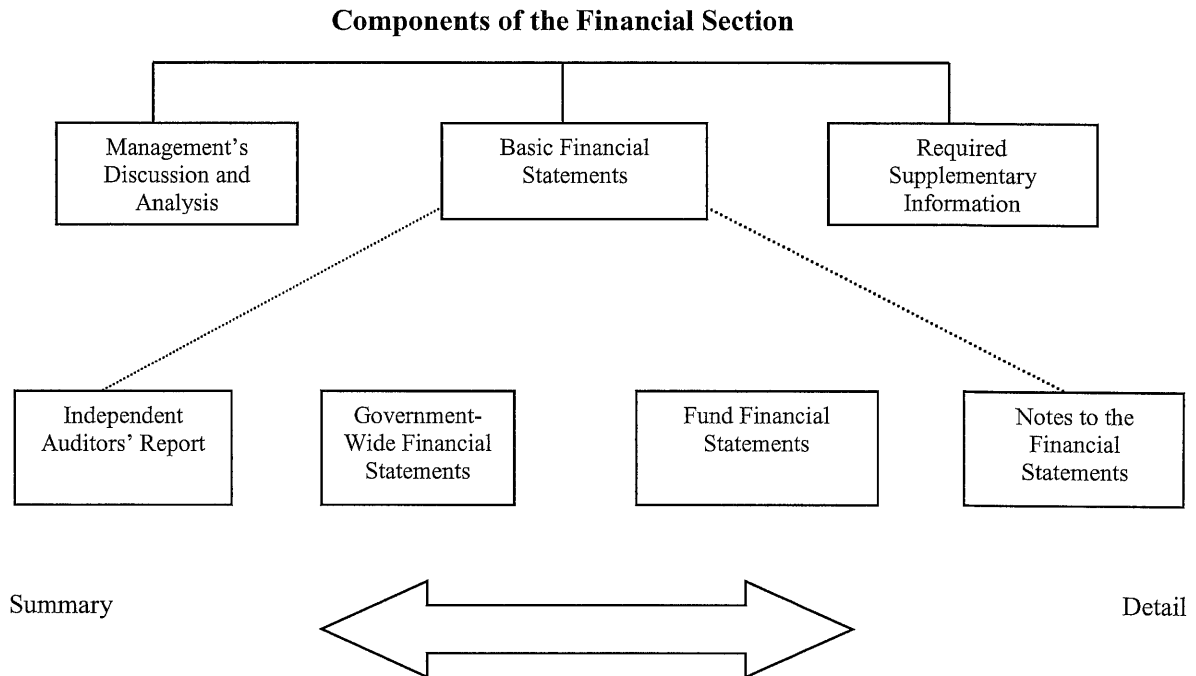
CITY OF JACINTO CITY, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2014

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Jacinto City (the "City") for the year ending September 30, 2014. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

CITY OF JACINTO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2014

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City into two classes of activities:

1. *Governmental Activities* – Most of the City's basic services are reported here, including public safety (police, fire, EMS), community services (building permits/inspection), public works, and general government (City Administrator, City Secretary, Finance, Human Resources, Information Technology). Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise taxes, municipal court fines, and permit fees finance most of these activities.
2. *Business-Type Activities* – Services involving a fee for those services are reported here. These services include the City's water, wastewater, and sanitation services.

The government-wide financial statements can be found after the MD&A within this report.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of City funds are governmental and proprietary.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the debt service fund, which are considered to be major funds for reporting purposes.

The City adopts annual appropriated budgets for its general fund and debt service fund. Budgetary comparison schedules have been provided for the general fund and the debt service fund to demonstrate compliance with these budgets.

CITY OF JACINTO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2014

Proprietary Funds

The City maintains one type of proprietary fund. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water distribution and wastewater collection/treatment operations. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund and schedules of funding progress for the Texas Municipal Retirement System and other post employment healthcare benefits. RSI can be found after the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflows of resources exceed liabilities by \$28,856,317 as of year end. This compares with \$27,857,285 from the prior fiscal year. The largest portion of the City's net position, 62 percent, reflects its investments in capital assets (e.g., land, City hall, police station, fleet equipment, drainage systems, as well as the public works facilities), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the assets themselves cannot be used to liquidate these liabilities.

CITY OF JACINTO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2014

Statement of Net Position:

The following table provides a condensed Statement of Net Position:

	2014				2013			
	Governmental Activities	Business-Type Activities	Reconciliation	Total	Governmental Activities	Business-Type Activities	Reconciliation	Total
Current and other assets	\$ 10,651,030	\$ 1,549,758	\$ -	\$ 12,200,788	\$ 10,036,402	\$ 2,057,309	\$ -	\$ 12,093,711
Capital assets, net	5,094,560	16,133,315	-	21,227,875	5,263,284	15,470,332	-	20,733,616
Total Assets	15,745,590	17,683,073	-	33,428,663	15,299,686	17,527,641	-	32,827,327
Deferred outflow of resources	31,794	-	-	31,794	35,768	-	-	35,768
Total Deferred Outflow of Resources	31,794	-	-	31,794	35,768	-	-	35,768
Long-term liabilities	3,967,441	120,843	-	4,088,284	4,383,219	122,981	-	4,506,200
Other liabilities	298,025	217,831	-	515,856	257,162	242,448	-	499,610
Total Liabilities	4,265,466	338,674	-	4,604,140	4,640,381	365,429	-	5,005,810
Net Position:								
Net investment in capital assets	5,107,126	16,114,392	(3,435,000)	17,786,518	5,237,883	15,433,627	(3,840,000)	16,831,510
Restricted	599,094	-	-	599,094	539,474	-	-	539,474
Unrestricted	5,805,698	1,230,007	3,435,000	10,470,705	4,917,716	1,728,585	3,840,000	10,486,301
Total Net Position	\$ 11,511,918	\$ 17,344,399	\$ -	\$ 28,856,317	\$ 10,695,073	\$ 17,162,212	\$ -	\$ 27,857,285

A portion of the primary government's net position, two percent, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$10,470,705, may be used to meet the City's ongoing obligation to citizens and creditors.

The City has historically issued and repaid debt in its governmental activities for which the proceeds were used to purchase capital assets for the business-type activities. With one activity carrying the capital asset and another carrying the debt, the result is an unusual net position presentation. The City has included a reconciliation column in the Statement of Net Position adjusting the net investment in capital assets. Outstanding debt associated with governmental activities in the amount of \$3,435,000 is being used to finance capital assets reported in business-type activities. Accordingly, this amount has been added back to unrestricted net position and deducted from net investment in capital assets in total for the primary government.

CITY OF JACINTO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2014

Statement of Activities:

The following table provides a summary of the City's changes in net position:

	2014			2013		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 1,245,514	\$ 2,678,317	\$ 3,923,831	\$ 1,130,441	\$ 2,567,669	\$ 3,698,110
Operating grants	79,326	-	79,326	161,225	-	161,225
Capital grants	-	755,946	755,946	-	1,082,587	1,082,587
General revenues:						
Ad valorem taxes	2,967,653	-	2,967,653	2,842,090	-	2,842,090
Sales taxes	713,398	-	713,398	653,167	-	653,167
Franchise and local taxes	764,875	-	764,875	738,800	-	738,800
Investment income	5,659	322	5,981	17,234	1,354	18,588
Other revenues	222,625	-	222,625	180,962	-	180,962
Total Revenues	<u>5,999,050</u>	<u>3,434,585</u>	<u>9,433,635</u>	<u>5,723,919</u>	<u>3,651,610</u>	<u>9,375,529</u>
Expenses						
General government	550,679	-	550,679	465,992	-	465,992
Public safety	2,774,324	-	2,774,324	2,662,739	-	2,662,739
Public works	934,256	-	934,256	742,106	-	742,106
Community services	835,477	-	835,477	723,701	-	723,701
Interest and fees on debt	89,755	-	89,755	249,169	-	249,169
Public utilities	-	3,250,112	3,250,112	-	2,981,945	2,981,945
Total Expenses	<u>5,184,491</u>	<u>3,250,112</u>	<u>8,434,603</u>	<u>4,843,707</u>	<u>2,981,945</u>	<u>7,825,652</u>
Increase in Net Position Before Transfers	814,559	184,473	999,032	880,212	669,665	1,549,877
Transfers	2,286	(2,286)	-	202,286	(202,286)	-
Change in Net Position	816,845	182,187	999,032	1,082,498	467,379	1,549,877
Beginning net position	10,695,073	17,162,212	27,857,285	9,612,575	16,694,833	26,307,408
Ending Net Position	<u>\$ 11,511,918</u>	<u>\$ 17,344,399</u>	<u>\$ 28,856,317</u>	<u>\$ 10,695,073</u>	<u>\$ 17,162,212</u>	<u>\$ 27,857,285</u>

The City's net position increased by \$999,032 during the current fiscal year. This net change can be attributed to several factors. Total revenues increased by \$58,106 primarily due to an increase in charges for services in the water and sewer fund. Total expenses increased by \$608,951 due to an increase in public utilities in the water and sewer fund related to payroll and purchases of supplies and equipment for the utility plant.

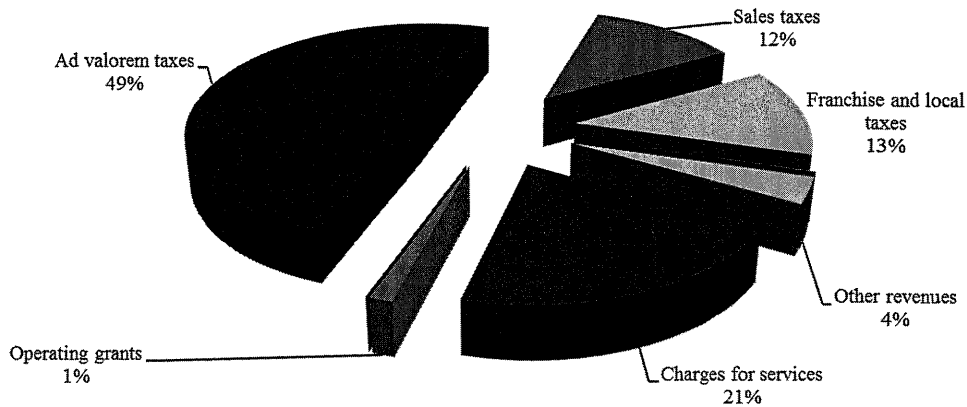
CITY OF JACINTO CITY, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

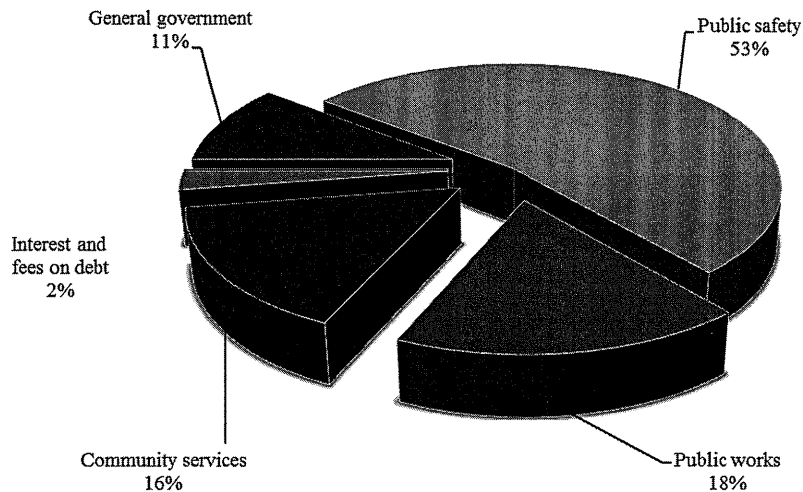
For the Year Ended September 30, 2014

Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities.

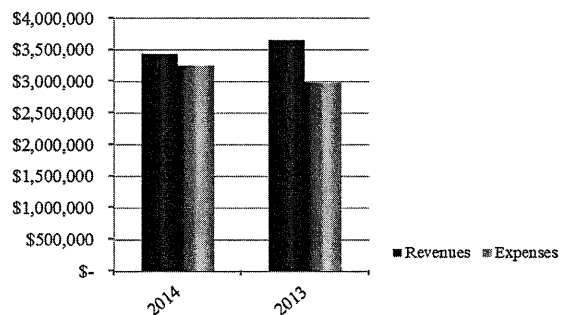
Governmental Revenues



Governmental Expenses



**Business-Type Activities
Revenues and Expenses**



CITY OF JACINTO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2014

Total revenues for the governmental activities increased by five percent when compared to the previous year. This increase is attributable to an increase in charges for services and property and sales tax revenue. Expenses increased seven percent compared to the previous year as a result of increased spending on public safety and public works. This is due to a slight increase in services for these functions as compared to the prior year.

Overall, business-type activity revenues decreased by \$217,025 when compared to the previous year. This decrease in revenue is largely attributable to capital grant revenue the City received for various construction projects in the prior year that were completed in the current year, including water delivery, Market Street water plant rehabilitation, and wastewater treatment plant upgrades. Expenses increased \$268,165 when compared to the previous year, which was mainly due to the purchase of different supplies for the utility plant.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

The City's governmental funds reflect a combined fund balance of \$9,636,668. Of this, \$599,094 is restricted for various purposes. There was an increase in the combined fund balance of \$596,980 from the prior year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$9,324,794. As a measure of the general fund's liquidity, it may be useful to compare both unassigned and total fund balance to total fund expenditures. Unassigned fund balance represents 189 percent of the total general fund expenditures, while total fund balance represents 202 percent of that same amount.

The fund balance increased by \$556,993 in the general fund for a total of \$9,923,888 at year end due to an increase in sales tax and ad valorem taxes.

Fund balance of the debt service fund had a deficit of \$287,220 as of year end.

Proprietary Funds – The City's proprietary funds financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City had a total positive net budget variance of \$335,258 for the general fund. The majority of the variance was due to expenditures of \$349,516 less than budgeted expenditures.

CITY OF JACINTO CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2014

CAPITAL ASSETS

At the end of the year, the City's governmental activities and business-type activities had invested \$5,094,560 and \$16,133,315, respectively, in a variety of capital assets and infrastructure.

The significant capital asset acquisitions during the current year included the following:

- Sanitary Sewer Rehabilitation: \$395,103
- Water System Improvements: \$627,591
- Market Street Water Plant Rehabilitation: \$365,059
- Water Plant and Pumps: \$266,013

More detailed information about the City's capital assets is presented in note III.C. to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had general obligation debt of \$3,435,000 and capital leases of \$38,151.

More detailed information about the City's long-term liabilities is presented in note III.D. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's budgeted expenditures for fiscal year 2015 total \$4,932,594 in the general fund and \$481,302 in the debt service fund. The City Council adopted a 2014 tax rate of \$0.799907 per \$100 valuation.

The City continues to face challenges normal for a city environment and is seeking to provide the best services possible to its residents.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the finances of the City. Questions concerning this report or requests for additional financial information should be directed to Lon Squyres, City Manager, City of Jacinto City, 1301 Mercury St., Jacinto City, Texas, 77029.

BASIC FINANCIAL STATEMENTS

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CITY OF JACINTO CITY, TEXAS

STATEMENT OF NET POSITION

September 30, 2014

	Primary Government			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
<u>Assets</u>				
Current assets:				
Cash - unrestricted	\$ 7,123,419	\$ 533,372	\$ -	\$ 7,656,791
Investments	2,499,895	756,047	-	3,255,942
Receivables, net	962,512	246,909	-	1,209,421
Internal balances	(13,430)	13,430	-	-
Cash - restricted	78,634	-	-	78,634
	<u>10,651,030</u>	<u>1,549,758</u>	<u>-</u>	<u>12,200,788</u>
Capital assets:				
Non-depreciable	37,084	7,953	-	45,037
Net depreciable capital assets	5,057,476	16,125,362	-	21,182,838
	<u>5,094,560</u>	<u>16,133,315</u>	<u>-</u>	<u>21,227,875</u>
Total Assets	<u>15,745,590</u>	<u>17,683,073</u>	<u>-</u>	<u>33,428,663</u>
<u>Deferred Outflow of Resources</u>				
Deferred charge on refunding	31,794	-	-	31,794
	<u>31,794</u>	<u>-</u>	<u>-</u>	<u>31,794</u>
<u>Liabilities</u>				
Current liabilities:				
Accounts payable and accrued liabilities	298,025	22,845	-	320,870
Customer deposits	-	194,986	-	194,986
	<u>298,025</u>	<u>217,831</u>	<u>-</u>	<u>515,856</u>
Noncurrent liabilities:				
Due within one year	451,504	23,961	-	475,465
Due in more than one year	3,515,937	96,882	-	3,612,819
	<u>3,967,441</u>	<u>120,843</u>	<u>-</u>	<u>4,088,284</u>
Total Liabilities	<u>4,265,466</u>	<u>338,674</u>	<u>-</u>	<u>4,604,140</u>
<u>Net Position</u>				
Net investment in capital assets	5,107,126	16,114,392	(3,435,000)	17,786,518
Restricted for:				
Child safety	166,372	-	-	166,372
Court technology	192,819	-	-	192,819
Donate a brick program	606	-	-	606
Police equipment	176,971	-	-	176,971
Governmental programming	62,326	-	-	62,326
Unrestricted	5,805,698	1,230,007	3,435,000	10,470,705
Total Net Position	<u>\$ 11,511,918</u>	<u>\$ 17,344,399</u>	<u>\$ -</u>	<u>\$ 28,856,317</u>

See Notes to Financial Statements.

CITY OF JACINTO CITY, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 550,679	\$ -	\$ -	\$ -
Public safety	2,774,324	1,168,076	-	-
Public works	934,256	77,438	-	-
Community services	835,477	-	79,326	-
Interest and fees on debt	89,755	-	-	-
Total Governmental Activities	<u>5,184,491</u>	<u>1,245,514</u>	<u>79,326</u>	<u>-</u>
Business-Type Activities				
Public utilities	3,250,112	2,678,317	-	755,946
Total Business-Type Activities	<u>3,250,112</u>	<u>2,678,317</u>	<u>-</u>	<u>755,946</u>
Total Primary Government	<u>\$ 8,434,603</u>	<u>\$ 3,923,831</u>	<u>\$ 79,326</u>	<u>\$ 755,946</u>

General Revenues:

Taxes
 Ad valorem taxes
 Sales taxes
 Franchise and local taxes
 Investment income
 Other revenues
 Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning net position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (550,679)	\$ -	\$ (550,679)
(1,606,248)	-	(1,606,248)
(856,818)	-	(856,818)
(756,151)	-	(756,151)
(89,755)	-	(89,755)
(3,859,651)	-	(3,859,651)
-	184,151	184,151
-	184,151	184,151
(3,859,651)	184,151	(3,675,500)
2,967,653	-	2,967,653
713,398	-	713,398
764,875	-	764,875
5,659	322	5,981
222,625	-	222,625
2,286	(2,286)	-
4,676,496	(1,964)	4,674,532
816,845	182,187	999,032
10,695,073	17,162,212	27,857,285
\$ 11,511,918	\$ 17,344,399	\$ 28,856,317

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CITY OF JACINTO CITY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2014

	General	Debt Service	Total Governmental Funds
<u>Assets</u>			
Cash - unrestricted	\$ 6,651,463	\$ 471,956	\$ 7,123,419
Investments	2,499,895	-	2,499,895
Receivables, net	881,437	81,075	962,512
Cash - restricted	78,634	-	78,634
Due from other funds	760,076	-	760,076
Total Assets	<u>\$ 10,871,505</u>	<u>\$ 553,031</u>	<u>\$ 11,424,536</u>
<u>Liabilities</u>			
Accounts payable and accrued liabilities	\$ 260,438	\$ -	\$ 260,438
Due to other funds	13,430	760,076	773,506
Total Liabilities	<u>273,868</u>	<u>760,076</u>	<u>1,033,944</u>
<u>Deferred Inflows of Resources</u>			
Unavailable revenue - EMS services	302,146	-	302,146
Unavailable revenue - property taxes	371,603	80,175	451,778
Total Deferred Inflows of Resources	<u>673,749</u>	<u>80,175</u>	<u>753,924</u>
<u>Fund Balances</u>			
Restricted			
Child safety	166,372	-	166,372
Court technology	192,819	-	192,819
Donate a brick program	606	-	606
Police equipment	176,971	-	176,971
Governmental programming	62,326	-	62,326
Unassigned	9,324,794	(287,220)	9,037,574
Total Fund Balances	<u>9,923,888</u>	<u>(287,220)</u>	<u>9,636,668</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 10,871,505</u>	<u>\$ 553,031</u>	
Adjustments for the Statement of Net Position:			
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.			
Capital assets - non-depreciable			37,084
Capital assets - net depreciable			5,057,476
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			
			753,924
Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.			
Accrued interest payable			(37,587)
Deferred charge on refunding			31,794
Non-current liabilities due within one year			(451,504)
Non-current liabilities due in more than one year			(3,515,937)
Net Position of Governmental Activities			<u>\$ 11,511,918</u>

See Notes to Financial Statements.

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CITY OF JACINTO CITY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2014

	General	Debt Service	Total Governmental Funds
<u>Revenues</u>			
Ad valorem taxes	\$ 2,507,168	\$ 507,879	\$ 3,015,047
Sales taxes	713,398	-	713,398
Franchise and local taxes	764,875	-	764,875
Licenses and permits	77,438	-	77,438
Fines and forfeitures	819,760	-	819,760
Charges for services	308,338	-	308,338
Intergovernmental	79,326	-	79,326
Investment income	5,482	177	5,659
Other revenue	202,311	20,314	222,625
Total Revenues	5,478,096	528,370	6,006,466
<u>Expenditures</u>			
Current:			
General government	627,050	-	627,050
Public safety	2,627,581	-	2,627,581
Public works	795,387	-	795,387
Community services	827,202	-	827,202
Debt service:			
Principal	41,941	405,000	446,941
Interest and fiscal charges	4,228	83,383	87,611
Total Expenditures	4,923,389	488,383	5,411,772
Excess of Revenues			
Over Expenditures	554,707	39,987	594,694
<u>Other Financing Sources (Uses)</u>			
Transfers in	2,286	-	2,286
Total Other Financing Sources	2,286	-	2,286
Net Change in Fund Balances	556,993	39,987	596,980
Beginning fund balances	9,366,895	(327,207)	9,039,688
Ending Fund Balances	\$ 9,923,888	\$ (287,220)	\$ 9,636,668

See Notes to Financial Statements.

CITY OF JACINTO CITY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2014

Net changes in fund balances - total governmental funds	\$	596,980
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay		161,882
Depreciation expense		(330,606)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Deferred property tax revenue		(47,394)
Deferred emergency services revenue		39,978

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.

Principal expenditures		405,000
Accrued interest payable		(15,799)
Loss on refunding		(3,974)
Premium		17,628
Compensated absences		(1,066)
Net pension obligation		(704)
Net OPEB obligation		(47,021)
Capital lease payments		41,941

Change in Net Position of Governmental Activities	\$	<u>816,845</u>
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See Notes to Financial Statements.

CITY OF JACINTO CITY, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2014

	<u>Enterprise</u>
<u>Assets</u>	
Current Assets	
Cash, unrestricted	\$ 533,372
Investments	756,047
Receivables, net	246,909
Due from other funds	13,430
Total Current Assets	<u>1,549,758</u>
Noncurrent Assets	
Capital assets:	
Non-depreciable	7,953
Net depreciable capital assets	16,125,362
Total Noncurrent Assets	<u>16,133,315</u>
Total Assets	<u>17,683,073</u>
<u>Liabilities</u>	
Current Liabilities	
Accounts payable and accrued liabilities	22,845
Customer deposits	194,986
Total Current Liabilities	<u>217,831</u>
Noncurrent Liabilities	
Due within one year	23,961
Due in more than one year	96,882
Total Noncurrent Liabilities	<u>120,843</u>
Total Liabilities	<u>338,674</u>
<u>Net Position</u>	
Net investment in capital assets	16,114,392
Unrestricted	1,230,007
Total Net Position	<u>\$ 17,344,399</u>

See Notes to Financial Statements.

CITY OF JACINTO CITY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND

For the Year Ended September 30, 2014

	<u>Enterprise</u>
<u>Operating Revenues</u>	
Water charges	\$ 1,572,353
Sewer charges	733,886
Sanitation	284,224
Other services	87,854
Total Operating Revenues	<u>2,678,317</u>
<u>Operating Expenses</u>	
Costs of sales and services	2,139,547
Administration	671,362
Depreciation	436,845
Total Operating Expenses	<u>3,247,754</u>
Operating (Loss)	<u>(569,437)</u>
<u>Nonoperating Revenues (Expenses)</u>	
Investment income	322
Interest expense	(2,358)
Intergovernmental revenue	755,946
Total Nonoperating Revenues	<u>753,910</u>
Income Before Transfers	184,473
Transfers (net)	<u>(2,286)</u>
Change in Net Position	182,187
Beginning net position	<u>17,162,212</u>
Ending Net Position	<u><u>\$ 17,344,399</u></u>

See Notes to Financial Statements.

CITY OF JACINTO CITY, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND (Page 1 of 2)

For the Year Ended September 30, 2014

	<u>Enterprise</u>
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 2,696,259
Payments to suppliers	(2,167,414)
Payments to employees	(655,718)
Net Cash (Used) by Operating Activities	<u>(126,873)</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Intergovernmental revenue	755,946
Net transfer from and to other funds	(2,286)
Net Cash Provided by Noncapital Financing Activities	<u>753,660</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital purchases	(1,099,828)
Principal paid on capital lease	(17,782)
Interest paid on capital debt	(2,358)
Net Cash (Used) by Capital and Related Financing Activities	<u>(1,119,968)</u>
<u>Cash Flows from Investing Activities</u>	
Purchase of investments	(580)
Interest on investments	322
Net Cash (Used) by Investing Activities	<u>(258)</u>
Net Decrease in Cash and Cash Equivalents	(493,439)
Beginning cash and cash equivalents	<u>1,026,811</u>
Ending Cash and Cash Equivalents	<u><u>\$ 533,372</u></u>

CITY OF JACINTO CITY, TEXAS

STATEMENT OF CASH FLOWS PROPRIETARY FUND (Page 2 of 2) For the Year Ended September 30, 2014

	<u>Enterprise</u>
Reconciliation of Operating Income (Loss)	
to Net Cash Provided (Used) by Operating Activities	
Operating (loss)	\$ (569,437)
Adjustments to Reconcile Operating (Loss) to Net Cash (Used) by Operating Activities:	
Depreciation	436,845
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	14,692
Increase (Decrease) in:	
Accounts payable and accrued liabilities	(27,867)
Customer deposits	3,250
Compensated absences	164
TMRS obligation	229
OPEB obligation	15,251
Net Cash (Used) by Operating Activities	<u><u>\$ (126,873)</u></u>

See Notes to Financial Statements.

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CITY OF JACINTO CITY, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Jacinto City, Texas (the “City”) was incorporated under the laws of the State of Texas in 1946. The City has operated under a “Home Rule Charter” which provides for a “Council-Manager” form of government since January 17, 1981.

The City Council is the principal legislative body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible to the Council for the administration of all the affairs of the City. The City Manager is responsible for appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget.

The City provides the following services: public safety including police, fire, and emergency medical services; parks; streets; sanitation; water and sewer services; recreation; public improvements; and general administration.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations or functions as part of the City’s financial reporting entity. No other entities have been included in the City’s reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City’s financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and wastewater functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

The City reports the following governmental funds:

The *general fund* is used to account for and report all financial resources not accounted for and reported in another fund. The principal sources of revenues include local property taxes, sales and franchise taxes, fines and forfeitures, as well as licenses and permits. Expenditures include general government, public safety, public works, and community services. The general fund is always considered a major fund for reporting purposes.

The *debt service fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

The City reports the following enterprise fund:

The *enterprise fund* is used to account for the operations that provide water, sewer, and sanitation services. These services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The water and sewer fund is considered a major fund for reporting purposes.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund type considers temporary investments with maturity of three months or less when purchased to be cash equivalents.

2. Investments

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools and commercial paper

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method).

Certain payments to vendors reflecting costs applicable to the future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with the construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	10 to 15 years
Equipment	5 to 25 years
Infrastructure	25 to 60 years
Improvements other than buildings	15 years
Buildings	15 to 50 years

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and emergency medical service revenue. These amounts are deferred and recognized as inflows of resources in the period that the amounts become available.

6. Compensated Employee Absences

Employees earn vacation time based on years of service with the City, up to a maximum of 25 days per year. Employees must take vacation time during the year it is earned.

Sick leave accrues on the basis of one day per month of employment. Employees are granted sick pay only for actual sick time. Effective January 1, 1992, employees are no longer paid for unused sick time upon termination. However, employees who have unused sick time which accumulated prior to January 1, 1992 may be paid for any of this unused sick time when their employment with the City terminates. The estimated amount that will be paid as compensation for services provided is recorded as a liability in the general fund and the enterprise fund. All eligible time is accrued when incurred in the government-wide and proprietary fund financial statements.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

7. Long-Term Obligations

The government-wide financial statement and proprietary fund type financial statements report long-term debt and other long-term obligations as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund. Although a portion of the general obligation debt was directly related to the purchase of water and sewer infrastructure, the debt service expenditures are included in the governmental fund financial statements as they are expected to be paid from debt service tax revenues instead of water system revenues.

Assets acquired under the terms of a capital lease are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the applicable fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

8. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

9. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

10. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted fund balance.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

11. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

2. Property Taxes

Property taxes are levied during September of each year, are due upon receipt of the City's tax bill, and become delinquent on February 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid. The penalties and interest accumulate on the unpaid accounts until July 1, at which time the delinquent accounts are turned over to the tax attorney for legal action. The interest continues to accumulate on the account at one percent per month, but the penalty remains at a maximum of 12 percent until paid.

A penalty of six percent and interest of one percent are added to delinquent taxes on February 1. The penalty amount increases to a maximum of 12 percent on July 1 of each year, with interest continuing to increase at one percent per month until the account is paid. An additional penalty of 20 percent is added in July for attorney costs. There are no discounts allowed on taxes.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles except the capital project funds, which adopted project length budgets. The original budget is adopted by the City Council prior to the beginning of the fiscal year. The legal level of control as defined by the charter is the department in the approved budget. The City Manager may transfer appropriations within a department without seeking the approval of City Council. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made during the year.

A. Deficit Fund Balance

At September 30, 2014, the debt service fund, a major fund, reported a deficit fund balance of \$287,220. The reason for the deficit is that the City had increased debt service expenditures related to early retirement of outstanding certificates of obligation.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Cash and temporary investments include petty cash on hand in various departments, certificates of deposit, and demand deposit accounts. As of year end, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	\$ 3,255,942	0.28

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to 180 days or less.

Credit risk. State law and the City's investment policy limit investments to obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent.

Concentration of credit risk. With the exception of U.S. Treasury securities and authorized pools, the City's investment policy does not allow for an investment in any one issuer that is in excess of 50 percent of the portfolio's total investments.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities with a collective market value of at least 102 percent. As of September 30, 2014, market values of pledged securities and FDIC insurance exceeded bank balances.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

B. Receivables

The following comprise receivable balances at year end:

	<u>General</u>	<u>Debt Service</u>	<u>Enterprise</u>	<u>Total</u>
Accounts	\$ -	\$ -	\$ 460,403	\$ 460,403
Ad valorem	377,661	84,248	-	461,909
Sales taxes	127,506	-	-	127,506
Other	475,461	-	-	475,461
Less allowance	(99,191)	(3,173)	(213,494)	(315,858)
Totals	<u>\$ 881,437</u>	<u>\$ 81,075</u>	<u>\$ 246,909</u>	<u>\$ 1,209,421</u>

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

C. Capital Assets

A summary of changes in capital assets for the year end is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 37,084	\$ -	\$ -	\$ 37,084
Total capital assets, not being depreciated	<u>37,084</u>	<u>-</u>	<u>-</u>	<u>37,084</u>
Capital assets, being depreciated:				
Buildings	6,148,459	133,564	-	6,282,023
Improvements other than buildings	482,134	-	-	482,134
Infrastructure	2,507,695	-	-	2,507,695
Equipment	1,130,324	28,318	-	1,158,642
Vehicles	1,844,959	-	-	1,844,959
Total capital assets, being depreciated	<u>12,113,571</u>	<u>161,882</u>	<u>-</u>	<u>12,275,453</u>
Less accumulated depreciation for:				
Buildings	(2,348,421)	(152,315)	-	(2,500,736)
Improvements other than buildings	(341,166)	(17,017)	-	(358,183)
Infrastructure	(1,903,961)	(11,088)	-	(1,915,049)
Equipment	(969,591)	(47,560)	-	(1,017,151)
Vehicles	(1,324,232)	(102,626)	-	(1,426,858)
Total accumulated depreciation	<u>(6,887,371)</u>	<u>(330,606)</u>	<u>-</u>	<u>(7,217,977)</u>
Total capital assets, being depreciated, net	<u>5,226,200</u>	<u>(168,724)</u>	<u>-</u>	<u>5,057,476</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,263,284</u>	<u>\$ (168,724)</u>	<u>\$ -</u>	<u>5,094,560</u>
			Less associated debt	(19,228)
			Plus deferred charge on refunding	31,794
			Net Investment in Capital Assets	<u>\$ 5,107,126</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 66,238
Public safety	133,456
Public works	130,912
Total Governmental Activities Depreciation Expense	<u>\$ 330,606</u>

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

The following is a summary of changes in capital assets for business-type activities for the year ended:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 7,953	\$ -	\$ -	\$ 7,953
Construction in progress	604,467	26,604	(631,071)	-
Total capital assets, not being depreciated	<u>612,420</u>	<u>26,604</u>	<u>(631,071)</u>	<u>7,953</u>
Capital assets, being depreciated:				
Infrastructure	19,248,825	1,704,295	-	20,953,120
Equipment	142,555	-	-	142,555
Vehicles	233,650	-	-	233,650
Total capital assets, being depreciated	<u>19,625,030</u>	<u>1,704,295</u>	<u>-</u>	<u>21,329,325</u>
Less accumulated depreciation for:				
Infrastructure	(4,467,534)	(421,342)	-	(4,888,876)
Equipment	(124,571)	(4,504)	-	(129,075)
Vehicles	(175,013)	(10,999)	-	(186,012)
Total accumulated depreciation	<u>(4,767,118)</u>	<u>(436,845)</u>	<u>-</u>	<u>(5,203,963)</u>
Total capital assets, being depreciated, net	<u>14,857,912</u>	<u>1,267,450</u>	<u>-</u>	<u>16,125,362</u>
Business-Type Activities Capital Assets, Net	<u>\$ 15,470,332</u>	<u>\$ 1,294,054</u>	<u>\$ (631,071)</u>	<u>16,133,315</u>
			Less associated debt	<u>(18,923)</u>
			Net Investment in Capital Assets	<u>\$ 16,114,392</u>

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

D. Long-Term Debt

The following is a summary of changes in the City's total long-term liabilities for the year end. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

Governmental Activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 3,840,000	\$ -	\$ 405,000	\$ 3,435,000	\$ 390,000
Capital leases	61,169	-	41,941	19,228 *	19,228
Compensated absences	45,907	1,066	-	46,973	42,276
TMRS obligation	99,827	704	-	100,531	-
OPEB obligation	177,656	47,022	-	224,678	-
Premium on debt	158,660	-	17,629	141,031	-
Total Governmental Activities	\$ 4,383,219	\$ 48,792	\$ 464,570	\$ 3,967,441	\$ 451,504

Long-term liabilities due in more than one year \$ 3,515,937

* Debt associated with capital assets \$ 19,228

Business-Type Activities:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital leases	\$ 36,705	\$ -	\$ 17,782	\$ 18,923 *	\$ 18,923
Compensated absences	5,435	164	-	5,599	5,038
TMRS obligation	32,376	229	-	32,605	-
OPEB obligation	48,465	15,251	-	63,716	-
Total Business-Type Activities	\$ 122,981	\$ 15,644	\$ 17,782	\$ 120,843	\$ 23,961

Long-term liabilities due in more than one year \$ 96,882

* Debt associated with capital assets \$ 18,923

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

General obligation debt and capital leases at year end were comprised of the following debt issues:

Description	Interest Rates	Balance
Governmental Activities		
General Obligation Debt:		
Refunding, Series 2013	2.00-3.00%	\$ 3,435,000
Capital Leases	7.10-7.45%	19,228
Total Governmental Activities		<u>3,454,228</u>
Business-Type Activities		
Capital Leases	7.10%	18,923
Total Business-Type Activities		<u>\$ 18,923</u>

The annual requirements to amortize general obligation debt outstanding at year end were as follows:

Year Ending Sept. 30	General Obligation Debt	
	Principal	Interest
2015	\$ 390,000	\$ 91,000
2016	405,000	83,200
2017	410,000	75,100
2018	420,000	66,900
2019	435,000	54,300
2020-2023	1,375,000	83,100
Total	<u>\$ 3,435,000</u>	<u>\$ 453,600</u>

The City is not obligated in any manner for special assessment debt.

Future minimum payments to retire capital lease obligations recorded in the respective funds follow:

Year Ending Sept. 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 19,228	\$ 1,248	\$ 18,923	\$ 1,215

The assets acquired through capital leases are as follows:

Asset	Amount
Police vehicles	\$ 129,097
Dump truck	59,292
Excavator	28,361
Water utility truck	98,138
Less: accumulated depreciation	(130,215)
Total	<u>\$ 184,673</u>

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

E. Federal Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or not performed correctly, they could result in a substantial liability to the City. Although the City does not anticipate that it will have any arbitrage liability, it periodically engages an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations.

F. Interfund Transactions

Transfers between the primary government funds during the 2014 fiscal year were as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amounts</u>
General fund	Water and sewer fund	\$ 2,286

The compositions of interfund balances as of year end were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>
General fund	Debt service fund	\$ 760,076
Water and sewer fund	General	13,430
		<u>\$ 773,506</u>

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pool (the "Pool"). The Pool purchases commercial insurance at a group rate for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three fiscal years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

C. Pension Plans

Texas Municipal Retirement System

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and RSI for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by TMRS. This report may be obtained from TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	<u>2014</u>	<u>2013</u>
Employee deposit rate	5.00%	5.00%
Matching ratio (City to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/ yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). This rate consists of the normal cost contribution and the prior service cost contribution rate, which is calculated to be a level percentage of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to TMRS at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The annual pension cost and the net pension obligation (asset) are as follows:

Annual Required Contribution (ARC)	\$ 206,531
Interest on Net Pension Obligation (NPO)	9,254
Adjustment to the ARC	(8,321)
Annual Pension Cost (APC)	<u>207,464</u>
Contributions made	<u>(206,531)</u>
Increase in NPO	933
NPO-beginning of year	<u>132,203</u>
NPO-end of year	<u><u>\$ 133,136</u></u>

Three-year trend information for the annual pension cost (APC) is as follows:

Fiscal Year	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
2012	\$ 207,528	\$ 200,192	96.47%	\$ 131,088
2013	\$ 200,449	\$ 199,334	99.44%	\$ 132,203
2014	\$ 207,464	\$ 206,531	99.55%	\$ 133,136

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

	2014	2013	2012
Actuarial Valuation Date	12/31/2013	12/31/2012	12/31/2011
Actuarial Cost Method	Entry Age Normal	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
GASB 25 Equivalent Single	17 Years - Closed	25 Years - Closed	26 Years - Closed
Amortization Period	period	period	period
Amortization Period for New	30 years	30 years	30 years
Gains/Losses			
Asset Valuation Method	10-yr Smoothed	10-yr Smoothed	10-yr Smoothed
	Market	Market	Market
Investment Rate of Return	7.0%	7.0%	7.0%
Projected Salary Increases	Varies by age and	Varies by age and	Varies by age and
	service	service	service
Includes Inflation at	3.00%	3.00%	3.00%
Cost of Living Adjustments	2.10%	2.10%	2.10%

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

Funded Status and Funding Progress

In October 2013, the TMRS Board approved actuarial changes in (a) the funding method from Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contribution rates and in the development of the Annuity Purchase Rate factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2013 actuarial valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report.

The funded status as of December 31, 2013, the most recent valuation date, is presented as follows:

	2014
Actuarial Valuation Date	12/31/2013
Actuarial Value of Assets	\$ 6,201,758
Actuarial Accrued Liability	\$ 7,711,020
Percentage Funded	80.4%
Unfunded Actuarial	
Accrued Liability (UAAL)	\$ 1,509,262
Annual Covered Payroll	\$ 2,166,581
UAAL as a Percentage of	
Covered Payroll	69.7%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

D. Other Post Employment Benefits

TMRS - Supplemental Death Benefit Fund

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other post employment benefit," or OPEB. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund. For the year ended September 30, 2014, the City offered the supplemental death benefit to both active and retired employees.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for fiscal years ended 2014, 2013, and 2012 were \$663, \$719, and \$964 respectively. The City's contribution rates for the past three years are shown below:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual Req. Contrib. (Rate)	0.03%	0.03%	0.04%
Actual Contribution Made	0.03%	0.03%	0.04%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

Post Employment Healthcare Plan

Plan Description

The City administers a single-employer defined benefit OPEB plan, known as the Post Employment Health Plan (the "Plan"). Employees are eligible for retiree health benefits if they retire with at least 20 years of service from the City. Employees may continue coverage on the City's Plan in existence at the time of retirement. The City pays the entire premium for the retiree's health insurance coverage. Dependent coverage is not offered. The Plan offers Medigap insurance coverage to eligible retirees after retirees have attained the age of 65 years and are eligible for Medicare instead of the full coverage provided prior to becoming eligible for Medicare.

Funding Policy

Funding is provided on a pay-as-you-go basis.

Annual OPEB Cost

The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

The following table shows the components of the City's annual OPEB cost of the year, the amount actually contributed to the Plan, and the City's net OPEB obligation:

Annual required contribution (ARC)	\$ 68,434
Interest on net OPEB obligation	7,914
Adjustment to the ARC	<u>(11,879)</u>
Annual OPEB cost	64,469
Contributions made	<u>(2,196)</u>
Increase in net OPEB obligation	62,273
Net OPEB obligation-beginning of year	226,121
Net OPEB obligation-end of year	<u><u>\$ 288,394</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2014 and the two preceding years are as follows:

Fiscal Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation	
			Beginning	Ending
2012	\$ 57,307	7.26%	\$ 110,070	\$ 163,215
2013	\$ 64,976	3.19%	\$ 163,215	\$ 226,121
2014	\$ 64,469	3.41%	\$ 226,121	\$ 288,394

Funded Status and Funding Progress

As of October 1, 2012, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$513,201, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$513,201.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

CITY OF JACINTO CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2014

The following is a summary of the actuarial assumptions:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar
Remaining Amortization Period	30 years
Asset Valuation Method	N/A
Investment Rate of Return	3.50%
Healthcare Cost Trend Rate (Initial/Ultimate)	8.30% / 5.00%

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF JACINTO CITY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended September 30, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Budget as Amended	Actual	
Revenues				
Ad valorem taxes	\$ 2,500,490	\$ 2,500,490	\$ 2,507,168	\$ 6,678
Sales taxes	673,720	673,720	713,398	39,678
Franchise and local taxes	754,180	754,180	764,875	10,695
Licenses and permits	67,830	67,830	77,438	9,608
Fines and forfeitures	741,100	741,100	819,760	78,660
Charges for services	316,650	316,650	308,338	(8,312)
Intergovernmental	68,000	68,000	79,326	11,326
Investment income	8,000	8,000	5,482	(2,518)
Other revenue	164,670	164,670	202,311	37,641
Total Revenues	5,294,640	5,294,640	5,478,096	183,456
Expenditures				
Current:				
General government	602,030	655,006	627,050	27,956
Public safety	2,780,640	2,827,856	2,627,581	200,275
Public works	814,280	825,454	795,387	30,067
Community services	760,100	918,420	827,202	91,218
Debt service:				
Principal	41,941	41,941	41,941	-
Interest and fiscal charges	2,159	4,228	4,228	-
Total Expenditures	5,001,150	5,272,905	4,923,389	349,516
Excess of Revenues Over Expenditures	293,490	21,735	554,707	532,972
Other Financing Sources (Uses)				
Transfers in	200,000	200,000	2,286	(197,714)
Total Other Financing (Uses)	200,000	200,000	2,286	(197,714)
Net Change in Fund Balance	\$ 493,490	\$ 221,735	556,993	\$ 335,258
Beginning fund balance			9,366,895	
Ending Fund Balance			\$ 9,923,888	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

CITY OF JACINTO CITY, TEXAS

SCHEDULE OF FUNDING PROGRESS

TEXAS MUNICIPAL RETIREMENT SYSTEM

September 30, 2014

Fiscal Year	2014	2013	2012
Actuarial Valuation Date	12/31/2013	12/31/2012	12/31/2011
Actuarial Value of Assets	\$ 6,201,758	\$ 5,690,351	\$ 5,264,444
Actuarial Accrued Liability	\$ 7,711,020	\$ 6,773,176	\$ 6,500,962
Percentage Funded	80.4%	84.0%	81.0%
Unfunded Actuarial			
Accrued Liability (UAAL)	\$ 1,509,262	\$ 1,082,825	\$ 1,236,518
Annual Covered Payroll	\$ 2,166,581	\$ 2,221,423	\$ 2,339,756
UAAL % of Covered Payroll	69.7%	48.7%	52.8%
Net Pension Obligation (NPO)			
at the Beginning of Period	\$ 132,203	\$ 131,088	\$ 123,751
Annual Pension Cost (APC)	207,464	200,449	207,529
Contributions Made	206,531	199,334	200,192
NPO at the End of Period	<u>\$ 133,136</u>	<u>\$ 132,203</u>	<u>\$ 131,088</u>

CITY OF JACINTO CITY, TEXAS

SCHEDULE OF FUNDING PROGRESS

POST EMPLOYMENT HEALTHCARE BENEFITS

September 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
10/01/09	\$ -	\$ 431,710	\$ 431,710	0.00%	\$ 2,349,618	18.37%
10/01/12	\$ -	\$ 513,201	\$ 513,201	0.00%	\$ 2,221,423	23.10%

SCHEDULES

CITY OF JACINTO CITY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND

For the Year Ended September 30, 2014

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget Positive Negative
<u>Revenues</u>			
Ad valorem taxes	\$ 288,690	\$ 507,879	\$ 219,189
Investment income	-	177	177
Other revenue	-	20,314	20,314
Total Revenues	288,690	528,370	239,680
<u>Expenditures</u>			
Principal	405,000	405,000	-
Interest and fiscal charges	83,690	83,383	307
Total Expenditures	488,690	488,383	307
Excess (Deficiency of Revenues Over (Under) Expenditures	(200,000)	39,987	239,987
<u>Other Financing Sources (Uses)</u>			
Transfers in (out)	200,000	-	(200,000)
Total Other Financing Sources	200,000	-	(200,000)
Net Change in Fund Balance	\$ -	39,987	\$ 39,987
Beginning fund balance		(327,207)	
Ending Fund Balance		\$ (287,220)	

